

Property Tax Study Committee

December 5, 2007

***Property Tax Equity and Fairness for the 21st Century
Communication Providers***



Telecommunication Property Tax Task Force

- Iowa Telecommunications Association (ITA)
- Rural Iowa Independent Telephone Association (RIITA)
- Frontier
- Iowa Telecom
- Qwest

***Property Tax Equity and Fairness for the 21st Century
Communication Providers***



1996 Telecommunications Act

- No longer have monopoly status
- Property taxation is based on methodology that dates to pre-competition
- Greater burden on remaining customers
 - Telephone lines declining

***Property Tax Equity and Fairness for the 21st Century
Communication Providers***



Wireless Services

- Voice
- Data
- Mobile Video

Tax Per Cell Phone

- \$3.50 per year
- \$0.29 per month



Cable TV Services

- Video
- Data
- Voice

Tax per Subscriber

- \$12.42 per year
- \$1.09 per month



Telephone Company

- Voice
- Data
- Video

Tax Per Phone Line

- \$40.32 per year
- \$3.36 per month

***Property Tax Equity and Fairness for the 21st Century
Communication Providers***

Impact of Business Valuation Assessment Methodology on Telecommunication Companies

Comparison of identical market value real estate and computed tax liability.

		<u>Local Exchange Carriers</u>	<u>Commercial / Industrial</u>	<u>Residential</u>
Market Value, Real Property		\$ 500,000	\$ 500,000	\$ 500,000
Assessment Ratio	(a)	<u>350%</u>	<u>100%</u>	<u>45%</u>
Assessed Value		1,750,000	500,000	225,000
Tax Rate (Statewide Average)		<u>3.00%</u>	<u>3.00%</u>	<u>3.00%</u>
 Property Tax		 <u>\$ 52,500</u>	 <u>\$ 15,000</u>	 <u>\$ 6,750</u>
 Effective Tax Rate, Assessed Value		 3.00%	 3.00%	 3.00%
Effective Tax Rate, Real Property Basis Only		10.50%	3.00%	1.35%
 Market Value, Real Property		 \$ 500,000		
Effective Tax Rate, Real Property Basis Only		<u>3.00%</u>		
 Property Tax		 \$ 15,000		
 Impact of Telecom Assessment methodology (Business Valuation)		 37,500		
Property Tax		<u>\$ 52,500</u>		
 Tax Increase/(Decrease) due to methodology		 \$ 37,500		
Percentage Increase/(Decrease)		250.00%		

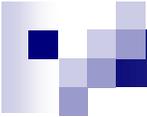
(a) - Assessment Ratio for Local Exchange Carriers represents the industry average ratio of centrally assessed value as compared to total value of land and buildings only (real property).

Impact of Business Valuation Assessment Methodology on Telecommunication Companies

Estimated impact of transition of Telecommunications Industry from Business Valuation assessment methodology to Real Estate Valuation assessment methodology.

	Local Exchange				
	Carriers	Commercial / Industrial	Residential	Other	Total
Current Business Valuation methodology					
Market Value, Real Property	a. \$ 629,637,393	\$ 31,954,097,702	\$ 110,186,543,800	\$ 26,444,770,512	\$ 169,215,049,407
Assessment Ratio, current	b. 350.00%	100.00%	45.00%	100.00%	
Assessed Value	2,203,730,876	31,954,097,702	49,583,944,710	26,444,770,512	110,186,543,800
Tax Rate (Statewide Average)	c. 3.00%	3.00%	3.00%	3.00%	
Property Tax	d. \$ 66,111,926	\$ 958,622,931	\$ 1,487,518,341	\$ 793,343,115	\$ 3,305,596,314
Effective Tax Rate, Assessed Value	3.00%	3.00%	3.00%	3.00%	3.00%
Effective Tax Rate, Real Property Basis Only	10.50%	3.00%	1.35%	3.00%	1.95%
Effective Tax Rate, Real Property Basis w/Rollback (e)					3.04%
Proposed Commercial Valuation Methodology					
Market Value, Real Property	\$ 629,637,393	\$ 31,954,097,702	\$ 110,186,543,800	\$ 26,444,770,512	\$ 169,215,049,407
Assessment Ratio, proposed	100.00%	100.00%	45.00%	100.00%	
Original Cost Basis w/Rollback	629,637,393	31,954,097,702	49,583,944,710	26,444,770,512	\$ 108,612,450,317
Effective Tax Rate, Rolled Back Basis	3.04%	3.04%	3.04%	3.04%	
Property Tax	\$ 19,162,877	\$ 972,516,017	\$ 1,509,076,578	\$ 804,840,842	\$ 3,305,596,314
Increase/(Decrease) in Tax	(46,949,049)	13,893,086	21,558,237	11,497,726	-
% Increase/(Decrease)	-71.01%	1.45%	1.45%	1.45%	
Impact per \$100,000 of Market Value	(7,456.52)	43.48	19.57	43.48	

See following slide for footnotes and assumptions.



Impact of Business Valuation Assessment Methodology on Telecommunication Companies

Assumptions utilized in liability comparison:

- a) Market Value indicates the value of land and buildings only (real property)
- b) Assessment Ratios reflect the following:
 - Local Exchange Carriers – industry average ratio of centrally assessed value as compared to total value of land and buildings only.
 - Residential – reflects the impact of residential rollback.
 - Commercial/Industrial and Other – assumes assessment at real estate market value.
- c) Tax Rate reflected is a statewide average of \$30.00 per thousand.
- d) Total Property Tax and breakdown by taxpayer classification per Iowa Department of Revenue presentation on July 18, 2006, and is reflective of data applicable to Fiscal Year 2005. Total includes Utility Replacement Tax (gas & electric).
- e) Reflects the computed applicable tax rate utilizing original Market Value of real estate for Local Exchange Carriers, Commercial/Industrial and other and the rollback valuation for Residential.

Property Tax Equity and Fairness for the 21st Century Communication Providers



Recommendation

- Same as all other commercial property in the state of Iowa
- Local assessed valuations
- Land and buildings only

*Property Tax Equity and Fairness for the 21st Century
Communication Providers*



Contact information

Iowa Telecommunications Association (ITA)

2987 100th Street
Urbandale, IA 50322

Tel: 515.867.2091
www.I-T-A.net

Rural Iowa Independent Telephone Association (RIITA)

1000 Walnut St., Suite 324
Des Moines, IA 50309

Tel: 515.243.1743
www.RIITA.com

***Property Tax Equity and Fairness for the 21st Century
Communication Providers***